

State of the Republic Address

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Ngarachamayong Cultural Center**

April 10, 2008

I. Introduction

Good morning Ladies and Gentlemen. This is the eighth and last time that I will present to you the State of the Republic Address. So before I begin, let me say that it has been the greatest honor in my life to bring in this new millennium and to serve the people of Palau as your President during my two terms in office. During these last seven years, we have been through much together, and while our journey has not been without stormy seas, I do believe that we have achieved much that will benefit our country in the years to come.

Having said that, let me make it clear that this does not mean that our work is finished. We still have nine more months to go. The honor and responsibility given to us as elected officials by the Palauan people must continue to motivate us to do our best to ensure that we continue to lay the foundation for future generations and the next set of elected leaders of our great island nation – a future that we can all look forward to.

II. Background

When I gave my Inauguration Speech seven years ago, I stated that we were entering a non-payday weekend. I then indicated to you that Palau would need to run on ‘E’. Not ‘E’ for Empty, but ‘E’ for Efficiency, ‘E’ for Effectiveness and ‘E’ for Excellence. This was because our government was “low on funds and high on expenditures” and it was necessary to establish a new model of government and governance in Palau -- a model of proper planning, a model of fiscal prudence, a model of institution building and a model of self-reliance – all to ensure a brighter future for our children.

At the beginning of the New Millennium in Palau, it was evident that we could no longer continue to spend more than what we brought in. From 1995 to 2000, we had the luxury of a number of Compact and non-Compact revenue resources that allowed us to increase local expenditures for operations by 20%. These funding resources included upfront Compact payments, such as the Energy Production (\$28 million) and the Capital Account (\$56 million), the KB Bridge Settlement (\$13 million) and the UMDA stock sale proceeds (\$3 million). By 2000, these funding resources were either fully expended or committed and it was apparent that the high expenditure rate after the implementation of the Compact could no longer be sustained. In order to ensure that government services continue to be responsive to the requirements of our people, it was imperative that we start living within our means.

Faced with this stark economic reality from day one, it was not easy to follow through on my commitment to “Preserve the Best; and Improve the Rest.” We understood that we needed to put

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into place strong economic and fiscal measures and policies that would allow us to weather our economic storm, and thereby sail into the new millennium with a renewed hope for our nation's future.

In order to accomplish this broad goal, we instituted the *Management Action Plan*, a roadmap that put forth our medium term economic and fiscal strategies. Regarding our economic strategy, we focused on developing our economic institutions, including the following:

- Establishing the regulatory frameworks that facilitate strong sustainable private sector growth and the protection of our environment;
- Continuing investments in our infrastructure, within a proper planning framework;
- Developing key sectors of our economy that have the potential to support sustainable income generation opportunities; and
- Containing the cost of government through balanced budgets, where expenditures are aligned with actual revenue receipts.

Each and every one of these strategies had one primary goal: to improve the quality of life of the people of Palau.

To contain the cost of our government, we instituted an immediate dual strategy: “right-sizing” our government and expanding our revenue base. To right-size our government, we –

- Began outsourcing operational support services, such as maintenance, that could be better provided by the private sector;
- Introduced performance management and strategic planning to improve accountability and productivity of expenditures;
- Re-organized the Executive Branch to streamline government operations;
- Developed a cost reduction plan to help reduce operating expenditures; and
- Implemented mandatory years of service, retirement and hiring restrictions of government employees to further reduce operating expenditures.

To expand our revenue base, we –

- Strengthened our revenue collection efforts by focusing resources on revenue generating activities to improve compliance;
- Offered tax reform legislation and implemented expanded user fees to help recover some of the costs of providing certain services; and
- Set out to identify and secure external assistance to help us build the foundation for future growth.

Our efforts to strengthen our economy and to put ourselves on a sustainable growth path were made more challenging by a number of unprecedented external events that negatively impacted all of us. As I mentioned earlier, we began under the dark cloud of the Asian Financial Crisis, which had a major effect on the growth of our private sector, and therefore on our revenue stream. We also entered office with further reduced Compact investment holdings and income from the technology stocks or “DOT.COM” crash of 2000.

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In the first half of fiscal year 2001, we faced a major dengue fever outbreak and then in the second half, we were forced to rebuild after Tropical Storm Utor in 2001, at a cost of over \$4 million. More significantly, we then had to immediately respond to the impact of the bombing of the World Trade Center in New York City, now known to everyone as “9/11”. Immediately after this event, we suffered a 26% reduction in our tourism and the related loss of revenues. This was, of course, followed by the wars in Afghanistan and Iraq, which continued to adversely impact tourism throughout the world for a long period of time.

In between the wars in Afghanistan and Iraq, we also faced the impacts of the Enron and Worldcom collapse, which further restricted our Compact investments, and the California State dock workers’ strike and Typhoon Pongsanga in Guam that disrupted shipping and goods to Palau that resulted in further reduced local revenue collections. After our economy finally started to improve, we were then severely hit by the world-wide SARS epidemic, which eventually required that we close our borders to the Republic of China, Taiwan, our very good friend and trade partner. The impact of this action was quite severe on our tourism industry and once again on our national revenue stream.

Despite these many external events that placed enormous strain on our financial resources, I believe that we are entering the last year of my second term much stronger economically than when we entered my first term. We have exercised expenditure restraint; we are pursuing revenue expansion measures; we continue to invest heavily in our infrastructure; we have put in place the framework for environmental protection and management; and we are prioritizing health and education initiatives. Through these actions, we have laid the foundation for sustainable growth.

We know what still needs to be done. We have the people and we have the determination. And I believe that if we work together for the remainder of this year, we can give the next President, and the next Congress, a real chance to move our island nation much closer to our ultimate goal of real economic independence.

III. State of the Republic

1. Overview.

Having taken these actions over the last seven years, what is the State of the Republic in Palau today?

In 2002, I indicated that Palau was at a crossroads and we could build strong foundations for our future. In 2004, I stated that there were ‘dynamic new signs of growth’. In 2005, I told you that our economy was ‘emerging’. In 2006, I elevated us from ‘emerging’ to ‘promising’. And in 2007, I stated that we were ‘back on track’. Today, if the leaders of our country continue to make the right decisions, I believe that we will be “well on our way”. By ‘the right decisions’, I refer to the need not only to significantly modernize our tax laws and thereby expand our revenue base for the future, but also the need to further strengthen our banking system and establish an effective legal framework for business activities, while continuing to work to contain the cost of government. These assumptions also depend upon successful discussions with the United States regarding the Compact of Free Association and outcomes that will protect Palau against immediate economic shocks.

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I maintain a positive outlook about our economic future because I strongly believe that after we have finalized our sometimes difficult political process of debate, our leadership will conclude that our nation must modernize its tax laws, strengthen its banking laws and adopt standards for conducting business that ensure the sustained growth of the private sector. I also believe that the United States, as a strong ally and friend, will agree that the best economic road to follow with Palau is one that does not injure Palau's economy in the short term.

2. Economic Data.

A review of our economic development shows that from FY 2000 to FY 2007 our Gross Domestic Product has grown from approximately \$117 million to \$172 million, an increase of 47%. In this same time frame, our domestic revenues have grown from \$29 million to an estimated \$38 million, an increase of 31%. Finally, during this same 7-year period, our local expenditures for operations have decreased from \$63 million to \$58 million, a reduction of about 8%. These figures demonstrate that our economy and our revenues are growing, while our expenditures have actually decreased. Few countries in the world can make that claim.

A sectoral analysis during this period indicates that the percentage of our public administration to our GDP is steadily shrinking, from 25% in 2000 down to 20% in 2007. In fact, in 2007, for the first time in the history of our country, public administration was not the largest sector of our economy. The Trade Sector became the largest sector at 21% compared with public administration at 20%. This decrease reflects our success in limiting expenditure growth.

3. Tourism.

Another primary indicator of our economic growth is demonstrated in our tourism figures. In 2000, approximately 44,000 tourists visited Palau. In FY 2007, approximately 83,000 tourists graced our shores. This is a percentage increase of almost 100%. This increase reflects our concerted efforts to expand and diversify our tourism markets and the tourism products that we offer, and the convenience for our tourist visitors in making Palau their preferred destination.

The filming of the U.S. reality television show "Survivor" in Palau, not once but twice, is one example of our efforts to raise the profile of Palau in a select market. The construction of the Ngarachamayong Cultural Center, the Belau National Museum and the Palau International Coral Reef Center and comprehensive improvements to our sports facilities were aimed at not only diversifying our tourism markets but also in offering alternative tourism products to further raise the attractiveness of Palau.

We currently have approximately 1,250 rooms in Palau, a little over 250 more rooms than we had in 2001. While this steady increase of approximately 4% a year is certainly not dynamic, it probably reflects our current readiness for growth as defined by our infrastructure and our institutions. In the coming years, we must carefully guard against growing faster than our small island nation can handle.

4. Construction Projects.

Another indication of our commitment to build the foundations for Palau's economy can be found in a review of our construction industry. Since 2000, we have spent approximately \$210 million on over 70 capital improvement projects. Of this amount, \$40 million was funded

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through concessionary or low-interest loans. None of this funding was from the Compact of Free Association.

Securing this funding and implementing our foreign grants and loans is an accomplishment to be proud of. We have much to be thankful for and I must offer my sincere appreciation to our friends, who have so generously contributed to Palau's economic future. First I must thank the United States for its on-going support. The Compact of Free Association works in Palau. I must also offer my thanks to Japan, who has stood strong with us over the years and has always shown great generosity in helping us build for the future. And finally, I must thank the Republic of China, Taiwan for recognizing the needs of a small island nation in its formative years.

This \$210 million amount includes major projects such as our National Capital, our International Airport Terminal, the resurfacing of our Airport Runway and upgrade of our airport, the Koror-Airai primary road improvements, the National Museum and the Ngarachamayong Cultural Center. This figure does not include the Compact Road, funded through the Compact for approximately \$149 million. However, these major projects represent less than half of our total CIP expenditures. Of just as great a significance are the small projects that have impacted every sector and every state in our country, from public school repairs to water system improvements at the national and state levels, to state road construction, to sports facilities, to community docks.

a. Current and New Projects

A review of the major projects currently underway or funded for construction in 2007 and through 2008, and their costs, include:

Koror-Airai Metropolitan Road Improvement Project	\$12.0 million
Airport-Ngerikiil Compact Connecting Road, Phase IV&V	\$5.7 million
PIA Apron Rehabilitation Design & Construction	\$5.0 million
PPUC Power Generation Project	\$5.0 million
State Economic Stimulus Package & Intrastate Road Improvements	\$4.9 million
PIA Loading Bridges	\$3.0 million
Belau National Hospital Solar Lighting Project	\$2.5 million
National Capital Solar Lighting Project	\$2.4 million
PIA Security Fence and Access Road	\$2.2 million
Koror Sewer Collection System	\$2.0 million
Okotol Dock Improvement Project	\$1.2 million
National Capital Information System Phase II	\$1.0 million

b. Planned Projects

In the short remaining time left in my administration, I am focusing on a number of very important projects to take place starting in 2009, consistent with the Palau National Master Development Plan. Some of the key projects include:

State Intrastate/Compact Connecting Roads Improvements	\$20.0 million
Babeldaob Cross-Island Road (Kokusai-Shimizu)	\$15.0 million

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Babeldaob Central High School	\$12.5 million
Malakal Port Improvements	\$10.0 million
Nekken Agriculture Station-Compact Connecting Road	\$7.0 million
Navigational Aids Improvements VTS-AIS/BPS GPS	\$6.9 million
Angaur State Port Facilities Improvements	\$5.2 million
State Economic Stimulus Package	\$3.6 million
Compact Road Maintenance Fund	\$3.0 million
New National Prison Facility in Babeldaob	\$2.5 million
Energy Efficiency & Renewable Energy Projects	\$2.0 million
Fruit Fly Eradication Project	\$1.3 million
Imekang Dock Improvement Project, Phase II	\$1.0 million
Aimeliik Solid Waste/Recycling Facility Construction	\$1.0 million

I am also working with multiple international and national funding agencies to identify potential funding sources for a new commercial port, a submarine cable for enhanced telecommunications services and a Ocean Thermal Conversion Technology plant to lower power prices and make Palau energy independent.

c. Private Sector Projects

Over the last seven years, a number of private sector projects have strengthened our tourism industry and our general economy. These have included the Palau Royal Resort, the Palau Plantation Resort, the Landmark Marina Hotel, the Rose Garden Hotel and the VIP Hotel. In addition, projects underway include the Toward Enterprise “Cave In” Resort project, the IPDC “Uchulangas” Resort, the Sea Passion Hotel and the Resort Trust Golf Course in Airai. I offer my congratulations to the Governor and the people of Airai, especially the community of Oikull, for agreeing to move forward and make the golf course project a reality. Finally, a project that has taken longer than initially planned, but is well worth the wait, is the Aman Resort project at the location of the old Nikko Hotel. The project is estimated to cost over \$20 million and will have a very positive and dynamic impact on raising the image of Palauan tourism to the rest of the world. All of these projects will help contribute to our goal of making Palau a premier tourist destination.

5. International Relations.

In regard to our international relations, I must again offer my thanks to our friends and donors, especially the Governments of Japan and the Republic of China, Taiwan, but particularly to the United States, for providing the strong financial and institutional foundation that has allowed Palau to grow under its own guidance over these last fourteen years.

The relationship between the United States and Palau has been a great success under the Compact of Free Association. We value all these friendships and sincerely appreciate their support. We can also learn from their example in our own efforts to achieve sustainable development with the hope of building a successful, vibrant and diverse economy.

For the present, Palau continues to need aid from its foreign friends to further assist in the development of our infrastructure and capacity. One of the greatest assets that Palau now has is

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the strength and quality of the relationships that we have built over the past seven years in the international community. We should consider these relationships to be priceless.

In this seven years, we have developed diplomatic relations with 15 more countries, including Switzerland, Mexico, Italy and the Czech Republic, to bring our total to 43. We have also signed on to 24 additional international treaties and conventions, including the Convention on Biological Diversity, the International Convention for the Suppression of the Financing of Terrorism and the Convention on the Conservation and Management of Highly Migratory Fish Stocks in the Western and Central Pacific Ocean. Our support and participation in these international efforts is a critical element in gaining acceptance in the international community and fulfilling our obligations to that community. Finally, we have become a member of the Asian Development Bank, which has already lead to very significant technical assistance, including a major update of our 2020 National Master Plan.

6. National Debt.

We are proud to report that we have funded our CIP projects without significantly increasing the national debt of our country. This is because, with the exception of our National Capital Project, we have held true to our rule that any loans that we take out for the funding of CIP or other projects must pay for themselves. Our debt today is approximately \$23 million. A small increase of \$3 million over a seven-year period, directed at improving our airport with proceeds from a low interest loan.

7. Trust Fund.

The Compact Trust Fund reached a high value at the end of fiscal year 2007 of \$173 million. This reflected a recovery since its decline in 2002 to \$124 million. The current value of the Trust fund is \$162 million, which reflects a decrease of about \$8 million, due to the recent instability of the U.S. Stock Market from the mortgage, credit, and financial crisis. Our money managers continue to monitor market activities and are continuously restructuring our investment portfolios to minimize our exposure during this market downturn.

The current market situation and our investment holdings further highlight the need for us to establish an effective regulatory framework in order to facilitate sustained private sector growth and an expanded revenue base. It is imperative that we pass the comprehensive tax reform legislation that we re-introduced in the OEK in 2001. This vital piece of legislation requires our immediate attention and action to facilitate its passage. We look forward to working with the OEK in our efforts to expand our revenue base.

As I have mentioned in past years, the IMF projects that, due to the underperformance of the Trust Fund, its value will fall far short of its original Compact projection. This issue will be taken up with the United States in the Compact review.

IV. Sustainable Development

We have always believed that the success of our island nation depends on balancing the development of our economy with the protection of our environment. Again, the environment is our economy. While our economy has grown at a manageable pace, we have also seen, in the

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last seven years, a very concentrated effort to establish the necessary mechanisms to ensure that the quality of our environment will serve to best enhance our economic development. We must continue to support all efforts to maintain and protect our environment, not only for economic development, but more importantly, so that we can show future generations that we were committed to sharing what previous generations left for us to enjoy.

1. Environmental Protection

In order to accomplish these goals, I created the Office of Environmental Response and Coordination (OERC) at the beginning of my administration to ensure the highest level of environmental coordination and cooperation with national environmental offices and agencies. Since its inception, the OERC has developed and managed over \$10.5 million in outside grants under various international treaties and conventions. These grants have been used to protect our marine and terrestrial biodiversity, to respond to the threats of global warming and climate change through adaptation and mitigation measures, to help implement a comprehensive solid waste management program, to finalize our land use management and zoning laws at the national and state level, and to protect our islands against numerous development related attacks to our environment.

Primary on my agenda is the protection of our marine and terrestrial life and the Olbiil Era Kelulau has been a principal partner in this effort with the passage of the Protected Area Network law, which established a system for the states to set aside marine and terrestrial areas for protection. It is now imperative that the Olbiil Era Kelulau finalize its work and pass the amendment to this law that will establish a strong financing mechanism for the PAN by charging a fee to tourists and accessing contributions from the international community. This tourism fee must be no less than \$30 per tourist in order to effectively fund both environmental protection and economic development projects in protected area networks.

When finally passed, funding from these two sources will be placed in an endowment fund for use by our states to meet their conservation objectives. Financing from international sources is being accessed through the Micronesia Challenge, a commitment by Palau, the FSM, the RMI, Guam and the CNMI to protect 30% of our near-shore marine resources and 20% of our terrestrial resources by 2020. I applaud the Olbiil Era Kelulau for the passage of this amendment, as it gives our states the tools and the economic incentives to protect the environment for future generations. With this passage, Palau can become the first island jurisdiction to establish a totally self-funding mechanism to comprehensively protect its environment.

In addition to the PAN, the Micronesia Challenge and the implementation of commitments to international treaties, Palau has, over the past seven years, taken responsibility for its domestic environment through a number of measures. The Executive and Legislative Branches worked to pass a Shark Finning Law to end the slaughter of sharks in our waters. We also established Operation Counter Invasion to protect our islands against invasive species, one of the greatest environment threats that we face. Since its creation, additional international funding has been identified to strengthen our effort to protect our shores against these imported plants and animals. We also recently passed a recycling law that is in the infant stages of implementation. With the

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help of the Japanese Government through JICA, we are improving the Ngerbeched dump and preparing it for its ultimate closure.

We have also taken a proactive role to join the international community in efforts to protect our coral reefs through membership in the U.S. Coral Reef Task Force and the International Coral Reef Initiative, for which we served as the Secretariat with Japan from June 2005 To June 2007. The Palau International Coral Reef Center has served as our representative on both of these bodies and serves Palau well in its efforts to respond to coral bleaching and other development related impacts on our coral reefs.

Finally, we have come to an agreement with the Olbiil Era Kelulau that it is necessary to establish a world standard regulatory scheme before we take action to actively explore for oil and other natural resources in our waters. To accomplish this, we established a Task Force by Executive Order, as requested by and chaired by the Olbiil Era Kelulau, to oversee the development of a comprehensive report and to monitor the development of a petroleum code, model petroleum contracts, as well as operational, financial and environmental regulations. The work of the Task Force, funded at a level of approximately \$600,000 from mostly international sources, should be completed by the end of the year.

I also recently met with representatives to request a \$500,000 feasibility study to determine the financial and practical feasibility of establishing an Ocean Thermal Energy Conversion plant in Palau to serve as the primary provider of power to the islands in place of our current diesel generators. If found feasible, we would look towards private financing over the long term for this project, which would make Palau one of the first jurisdictions in the world to move towards implementation of total green energy.

2. Tourism

Any discussion of sustainable development in Palau must include the tourism industry. In 2001, a National Committee on Sustainable Tourism Policies and Action Plans recommended the establishment of a Sustainable Tourism Unit to be assigned 31 programs essential for the efficient growth of the tourism industry. These were supported by the people at the National State Leadership Symposium and still await action to establish these critically needed programs. We must be committed to maximizing the value of our tourist dollars and diversifying our tourism portfolio as indicated in the Symposium Communiqué. We must keep in mind that the tourism sector is a competitive market and will not just take care of itself. If we do not take the required action to manage our tourism industry properly, we stand to diminish the unique experience of visiting and appreciating the beauty of Palau's exceptional natural environment. Within the context of this need for enhanced management, we must also ensure that the benefits of tourism flow both to Palauans and foreign investors.

We currently have a reorganization proposed before the OEK that would provide the management framework to accomplish this greater oversight as well as enhanced management for our environment. We look forward to working with the OEK in seeing the value and need to pass this law immediately.

3. Economic Diversification

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We have also worked hard to diversify the private sector portfolio in order to weather economic shocks, such as SARS, that can injure our small economy, which relies heavily on the tourism sector. We have proposed a comprehensive off-shore corporate legislation focused on legal off-shore Japanese companies that did not pass in the OEK. This legislation has subsequently passed in the FSM. We also proposed the institution of a Silver-Hair Town Program, which passed in 2007. We now need to market and implement this legislation.

In addition to these major initiatives, we have worked in a number of other areas to diversify our economy, including:

- Implementation of a lumber tree planting project;
- Provision of value-added training to develop new products to expand income opportunities in locally-grown food crops;
- Establishment of technical support for the promotion of agriculture products with the ROC Agriculture Technical Research Station;
- Expansion of the giant clam farming project to states and individuals;
- Placement of fishing aggregate devices to support sports fishing;
- Provision of funding to the National Development Bank to finance small business opportunities; and
- Membership in the Asian Development Bank to expand technical and financial resources for the private sector.

V. Building Economic Institutions

In addition to putting into place the necessary laws, regulations and programs to provide our private sector with the ability to compete, we must also build modern governmental institutions that meet international standards and consequently enhance our ability to compete in the international market place. We must remember that investment flows to jurisdictions that follow international rules in a timely fashion. Unfortunately, debate on these issues has continued to slow the process of meeting the needs of our people. And, in the end, we stand to pay the price for those delays.

In the last seven years, I must applaud the Olbiil Era Kelulau for passing many essential pieces of legislation. In 2001 we passed five banking laws after much debate that just avoided international action against us. In 2007, we also passed a necessary banking amendment to our Financial Institutions Act that once again protected us against adverse international action. These two actions did more than avoid the international sanctions; they established the foundation for a banking industry in Palau that will save the Palauan depositors' money. We also passed a 99-year lease law that will greatly strengthen our private sector and foreign investment. In addition, we also passed our PAN law and our Silver Hair Town Program law. And in the area of financial management, we passed the Budget Reform Act. For these actions, I applaud both the Senate and the House of Delegates.

On the other hand, we have yet to pass a much needed modern tax law that is necessary to strengthen our private sector, our government and our people. We recognize that passing comprehensive tax laws is very challenging. But a modern tax law is critical if we are to have a

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strong and vibrant private sector. We must recognize this necessity for our future. As I have said before, “we must create revenue sources that pay for our own infrastructure needs and that replace grant revenues from the United States that currently finance a very considerable portion of our health and education. We must also improve the capacity of our people to provide essential services, both in the public and private sectors, that will permit the economy to grow and to ensure that benefits flow to the people.”

We have yet to pass a transparent Foreign Investment law that will enhance our economy’s growth. We must act on this issue because it will not go away. We certainly do not want to wait until we are completely owned by front businesses before we finally decide to do something about it.

In addition, our leadership must still work to pass a commercial code, bankruptcy laws, building code, labor laws, a statistics act and a modern criminal code, all which serve as a foundation for a modern and successful Palau.

Once again, we must also pass the amendment to the PAN law to provide our protected areas with a long-term funding mechanism that not only aids in management of protected areas at the state level, but also provides funding for development projects in protected areas.

We must also begin to seriously consider the impact on our citizens of the increase in worldwide fuel prices as well as the potential economic recession in the United States that may adversely impact Palau. Already, we are seeing the impact of higher oil prices on our utility bills, our fuel and now on our food bill. I believe that this means that we must begin to quantify their potential impact and jointly undertake measures to respond to this economic reality, including a potential minimum wage increase for the private sector and a cost of living adjustment for our government employees. The cost of living adjustment for government employees will require the identification of additional revenue generation measures.

Time is rapidly running out for us. Let us work together over the next nine months to pass these laws and leave a legacy that we can be proud of and that sets the foundations for all future generations.

VI. Compact Review

One of the primary foundations of our future is, of course, our relationship with the United States. As I said earlier, our relationship with the United States for the last 14 years has been a great success. However, the fact is that, despite our hard work and achievements, we have yet to reach our goal of sustainable development and economic independence. The original Compact of Free Association between our two countries anticipated that it would take time. That is why Section 432 of the Compact calls for reviews on the 15th, 30th and 40th anniversaries.

As you are aware, we initiated the request for discussion with the United States regarding the Compact agreement. We held our first discussion with the United States here in Palau on March 10th and agreed to continue on a course of discussions that will lead to a mutual agreement on financial and other matters. We hope that we can complete these discussions by the end of this

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year. Within this scope, we hope to establish a financial package that permits us to move towards economic independence over a period of time that will help us avoid drastic economic shocks to our young nation. We strongly believe that the United States will take a rational and reasonable approach during these discussions and that we will come to a mutual understanding and agreement that will benefit both of our nations over the long term.

VII. Conclusion

My friends, it has been a very interesting journey over the last seven years. We have not always agreed, nor will we always agree in the future. But I believe that in our hearts, we have the best interests of our nation at the core of our decision-making process. Unfortunately, we sometimes allow our disagreements to override our efficiency in making some of the decisions that are necessary for our nation to move forward.

The people of Palau have spoken to us in many forums, most notably through the National/State Economic Symposium and the National Economic Symposium. In both of these leadership meetings, the people called for progressive action on a wide range of topics. Most frequently, the recommendations mirror the recommendations of the 2020 National Master Development Plan and other subsequent planning documents. They are nothing new. We have known all along what we need to do but we simply have not moved forward with concrete actions.

The people have made it clear that they want strong economic institutions, a well managed tourism industry, a diversified economy, a responsive government, expanded opportunities and capacity for the citizens of Palau and a fair share of the benefits of economic growth and development.

To meet the expectations of our people, we must, and let me repeat the word ‘must’, make the hard decisions that will lead to these necessary results. We cannot make all of the people happy all of the time. But we can convince the people that the basis of our actions is their long-term welfare, even if, on a single issue, our decision may not suit their wishes.

As I have said in the past, in our efforts to grow and prosper, there will be temptations from the most unlikely sources, many that will not be in our best interests. We must, as leaders, and as a people, have the strength to turn down immediate offers of wealth and look for a more balanced approach – one that recognizes the strength of unity and forbearance.

Once again, thank you for giving me the opportunity to serve you as your President. It has been a profound experience.